EMCO

1973 annual report

Contents

Annual Meeting

The Annual Meeting of the Shareholders of the Company will be held at Centennial Hall, 550 Wellington Street, in London at 10:30 A.M. on Wednesday, May 1, 1974.

Our cover symbolizes the different capabilities that Emco people contribute to the complex operations of the company. Their skills, experience and determination provide the dynamics for the company's success and future growth.

EMCO

Financial Summary

	1973	1972
Sales	$130,329,000	100,542,000
Earnings before extraordinary item	4,024,000	547,000
Extraordinary item	201,000	104,000
Net earnings	$ 4,225,000	651,000
Per common share:		
Basic earnings:		
Before extraordinary item	$ 1.07	.14
Including extraordinary item	1.12	.17
Fully diluted earnings:		
Before extraordinary item	.87	.14
Including extraordinary item	.91	.17
Net worth	6.10	5.20
Dividends paid	.20	.20
Return on shareholders' equity - January 1	20.5%	2.7%
Capital expenditures - net	$ 2,653,000	2,270,000

P. J. Ivey

C. N. Chapman

To our Shareholders

In sharp contrast to the previous year, 1973 was one of dramatic recovery in earnings for your company, as is clearly outlined in the Financial Summary on the previous page. Net earnings from operations of $4,024,000 ($1.07 per share, and 87¢ on a fully diluted basis) were over double the previous record. The return on shareholders' equity at January 1, 1973, increased to 20.5%, compared with a previous high of 15.1%. Improvements in consolidated gross profits of 2.7 percentage points, and a reduction in total expenses of 1.2 percentage points, were achieved.

A generally booming world economy unquestionably contributed a great deal to the improved performance. Nearly every branch, division and subsidiary accomplished substantial increases in net earnings.

Housing in Canada forged ahead beyond initial forecasts to 268,000 starts, some 18,000 above the 1972 record. There was a marked increase in industrial, commercial and institutional construction. Both are important to Emco's Canadian operation.

As a partial offset to these positive factors, a serious shortage of raw materials and manufactured products, accompanied by substantial price increases, developed in the last six months of 1973. Fortunately, the company's past record of loyalty to long-established suppliers enabled us to meet most commitments to customers. During the last quarter of 1973, very significant selling price increases became essential as a result of the current inflationary cycle.

Essentially, the same conditions prevailed outside of Canada, with predominantly positive and partially negative effects on our foreign operations. A more detailed review of 1973 operations of the Plumbing and Industrial Group, and the Engineered Products Group, is covered elsewhere in this Annual Report.

Outlook for 1974

The much-publicized energy crisis, and unresolved international monetary problems, must certainly affect any forecast for 1974. However, the world-wide emphasis on petroleum conservation can only benefit our Engineered Products Group.

Increased refining capacity, marine, rail and road loading and unloading facilities, and new and improved vapour recovery devices are essential to meet market demand and government pollution control regulations. These are Emco Wheaton's products, and a high backlog of orders is on hand at present in every subsidiary in this group.

The momentum of 1973's construction activity in Canada is still apparent, and will undoubtedly carry through all of 1974. A very strong forecast for non-residential building, a keen government interest in a continuing high level of housing construction, and improved Emco productivity capabilities, lead to the conclusion that results for 1974 should at least equal 1973. In anticipation of considerably increased activity in the near future, the Directors of your company have authorized capital expenditures in 1974 of approximately $4,000,000, an amount substantially higher than that spent in any other single year.

Board Changes

At last year's Annual Shareholders' Meeting in May, 1973, Mr. Robert W. Stevens, Q.C., was elected to the Board of Directors, replacing Mr. W. J. Schultz of Shorthills, New Jersey, whose resignation was accepted by the Board of Directors. Mr. Stevens, a lawyer and a partner in the Toronto firm of Blake, Cassels & Graydon, is the son of Mr. J. H. Stevens, Honorary Director and Past President and Chairman of the company, and represents a substantial shareholding.

In December, 1973, Masco Corporation of Taylor, Michigan, acquired from Pebojo Holdings Limited and Allpak Products Limited 1,850,000 Emco common shares (approximately 49% of the current issued shares) at a price of $7.00 per share, payable in cash and notes maturing over five years. Pebojo Holdings Limited retains 444,650 Emco common shares. Masco Corporation is one of the leading growth companies in the U.S.A. and the largest faucet manufacturer in the world.

On March 6, 1974, the Board of Directors received and accepted the resignations of Messrs. C. Robert Ivey and William G. Poy as Directors of the company. To fill these vacancies, the Board appointed Richard A. Manoogian and Wayne B. Lyon as new Emco Directors. They are President and Vice-President, respectively, of Masco Corporation. The Directors also accepted the resignation of P. J. Ivey as Chairman of the Board and Chief Executive Officer, and appointed Mr. Manoogian as Chairman of the Board, and Mr. C. N. Chapman, President and General Manager since May, 1969, as President and Chief Executive Officer.

A mutual respect, developed over some fifteen years of association, has existed between the Senior Officers and many other employees of Emco and Masco. We are confident that the new partnership, created through Masco's investment in Emco, will meet the criteria of significant benefit to Canada, our employees and our shareholders.

The company's successes in 1973 were the result of Emco employees performing their many duties efficiently and effectively. To them, and to Messrs. C. R. Ivey, W. G. Poy and W. J. Schultz, for their past contribution as Directors, the Board extends its warmest appreciation.

On behalf of the Board of Directors

P J Ivey C N Chapman

London, Canada, March 18, 1974

Emco is People . . .

Emco's response to the challenge of change is determined by its more than 2,000 men and women around the world. Each contributes different skills essential to the company's operation . . . the man at the drawing board designing a new product; the foundryman pouring molten metal; the salesman who satisfies a customer need; the girl at the typewriter; the voice behind our telephone. It's people who make Emco . . . the warehousemen and shippers; computer operators and accountants . . . people who manage departments and divisions . . . people in corporate development and communication. Their talents, experience, knowledge and determination provide the dynamics for Emco's growth.

They keep ideas and products on the move at Emco operations in Canada, England, France, Germany, Japan, Australia, Brazil and the United States; ideas that have made Emco one of the world's foremost companies in fluid handling products, ranging from kitchen and bathroom faucets to towering 12-storey marine loaders and sophisticated vapour recovery transfer systems to help keep the air clean.

Emco is people . . . people developing new products for Emco markets and new markets for Emco products.

Emco is also a corporate citizen and recognizes the need to directly apply its skills and resources for the betterment of society. We encourage our people to contribute their time and talents to community affairs. We also extend corporate financial support to worthy causes. The scale of such contributions — individual and corporate — must, of course, be a reflection of our ability to remain in business on a profitable basis. This, we believe, is the cornerstone of our faith in the free enterprise system.

Management Committee

L to R - W. W. DeShane, Comptroller and Assistant Secretary; A. R. Martin, Director of Corporate Development and Secretary; S. F. Smith, Vice-President, General Manufacturing Division; R. S. MacLean, Vice-President, Plumbing and Industrial Group; C. N. Chapman, President; J. W. Adams, Executive Vice-President and Treasurer; J. G. Beresford, Vice-President, Engineered Products Group.

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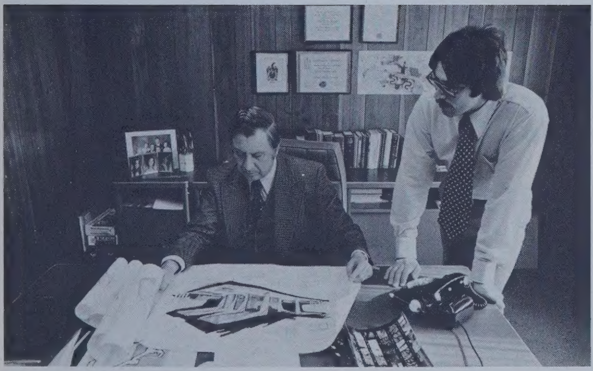

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(1) L to R - J. M. W. Hunter, Director of Advertising and Public Relations; P. G. Watson, Advertising Assistant.

(2) L to R - B. Sutherland, Head Computer Operator; K. L. Goldthorpe, Manager, Data Processing.

(3) L to R - R. H. Moore, Manager, Operational Auditing; W. W. DeShane, Comptroller and Assistant Secretary; H. Gillam, Corporate Accountant.

(4) L to R - W. R. Duffield, Supervisor, Personnel; K. C. Holland, Director of Personnel.

Operations Review
Plumbing and Industrial Group

In line with the record growth rates of the construction industry, our Plumbing and Industrial Group sales reached an all-time high.

The manufacturing and distribution divisions responded to the exceptional demand with intelligent planning and positive marketing strategy and, within the restraints placed by material shortages, maintained reasonable inventory levels to service the requirements of our customers.

Manufacturing Division

The manufacturing division launched a major programme in the latter half of 1973 for improvements and expansion at London and Brampton. Under this programme, a 63,000 sq. ft. extension was completed at Brampton. The major portion of this new area has been assigned to a central warehouse for finished goods inventories for both plants. The remaining space has been utilized for additional injection moulding machines.

With the transfer of shipping and warehousing to Brampton and the addition of two extensions, the London Factory obtained an effective additional space of 42,000 sq. ft. This floor area has been reallocated for increased production capabilities as well as improvements in shop environment and work flow.

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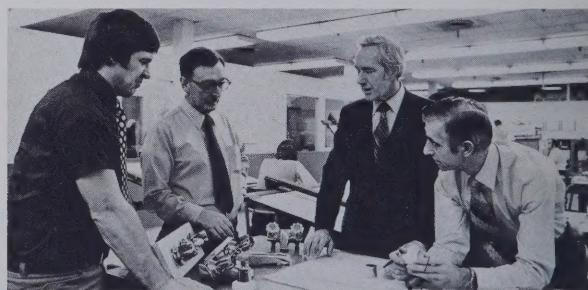

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(1) L to R - C. R. Thody, Superintendent, Assembly Division; H. E. Holmes, Manager of Manufacturing; J. J. Tevlin, Manager, Manufacturing Engineering.

(2) J. D. Bryant, Manager of Engineering, Emco Plastics Limited.

(3) L to R - E. F. Lince, General Manager and R. M. Cook, Plant Manager, Emco Plastics Limited.

(4) L to R - W. T. Granger, Supervisor, Product Engineering Services; C. G. Cairns, Product Design Coordinator; A. D. Thompson, Manager, Product Design and Development; L. T. Anderson, Industrial Designer.

(5) L to R - J. C. Vanderhoeven, Manager, Accounting and Materials; A. M. Whitfield, Purchasing Agent.

The brass die-casting capacity of the London Plant was substantially increased with the installation of a new furnace. The combined operation has been located in the new foundry extension.

In addition to the visible dimensions of change at the London Factory, plans are in hand to control the quality of air in the plant. This is a continuation of our overall pollution abatement programme and is designed to promote a healthy in-plant environment as well as to protect the general atmosphere.

Another development in the manufacturing division was the opening of a new warehouse in Calgary to service the expanding Alberta market with Emco's manufactured products.

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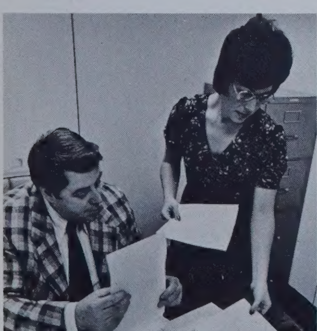

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(1) L to R - D. T. Van Buskirk, Manager, Customer Service; G. D. Thompson, Marketing Manager, Manufactured Products; R. A. Armstrong, Order Desk Supervisor.

(2) L to R - J. Farncomb, Eastern Sales Manager, Manufactured Products; C. Thomson, Receptionist, Emco Plastics Limited.

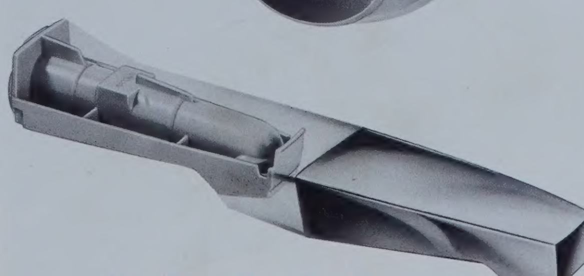
(3) R. A. Fletcher, Western Sales Manager, Manufactured Products.

New Products

Our design engineers continue to explore new concepts for product development and improvements. A revolutionary patented two-piece plastic spout, recently introduced to the market, assures damage-free installation with the chrome cover snapping into a lock position. The new "Tingle King" shower head, providing twin spray patterns, has been designed with a peripheral stream control which is a distinct user-convenience.

Engineering and field tests are currently underway on major product developments which are expected to be on the market early next year.

"Tingle King" Shower Head



New Two - Piece Spout

Operations Review
Plumbing and Industrial Group

Exports

Our export performance for manufactured products was another notable achievement. Deeper in-roads were made into our traditional Caribbean markets and new frontiers were opened in Europe.

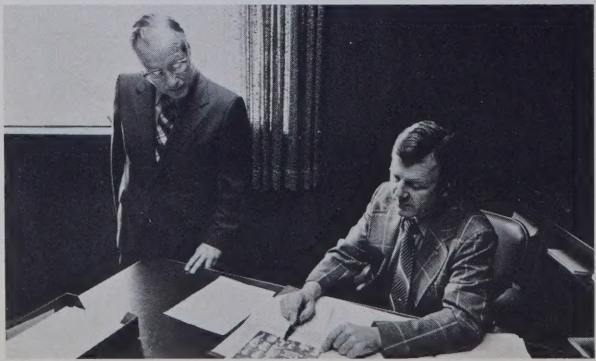
While further consolidation is expected in our traditional markets, the demand situation in Europe appears somewhat uncertain. However, currency revaluations continue to be advantageous to Canadian exporters. Most important, we have the people capabilities to perceive and seize the opportunities when and where they occur.

Supply Division

In the dynamic market environment of today, the division's most commanding asset has been its people. Through keen marketing perception, appreciation of customer designed service and personal motivation, they have constantly advanced their goals within the organizational framework and extended our distribution network.

A much larger building was purchased for the expanded operations of the division's branch in Edmonton, while land was acquired for future expansion in Montreal, Toronto, Halifax and St. Catharines. New sub-branches are being opened in Medicine Hat, Alberta; Sherbrooke, Quebec; North Bay, Ontario and Terrace, British Columbia.

We shall continue to broaden our market coverage and strengthen our competitive stance through effective management of our facilities and through the development of our people.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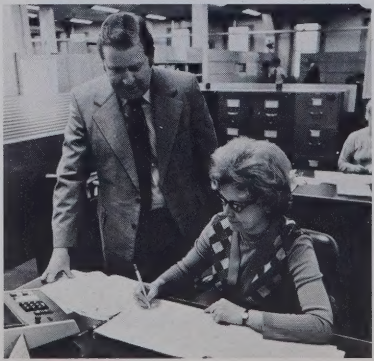
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(1) L to R - G. E. Pinner, Branch Coordinator; W. E. Greene, Manager of Purchasing, Emco Supply.

(2) L to R - C. E. Wright, Controller, Emco Supply and C. M. Elliott, Supervisor, Emco Supply Accounting.

Eastern Regional Branch Managers

Front Row - L to R - A. Marra, Ville de Brossard, Que.; J. J. Chernis, Quebec, Que.; J. J. Wareham, Montreal, Que.; Back Row - L to R - D. J. Eaton, Halifax, N.S.; E. A. Cousins, Eastern Regional Manager; K. E. Frank, Ottawa, Ont.; J. C. Allan, Saint John, N.B.

Central Regional Branch Managers

Front Row - L to R - L. H. Bloxam, London, Ont.; J. W. Robinson, Ontario General Credit Manager; W. L. Douglas, Central Regional Manager; N. W. Mealing, Kitchener, Ont.; M. R. Headon, Peterborough, Ont.; Back Row - L to R - J. S. Gay, Barrie, Ont.; W. A. Reid, Windsor, Ont.; T. S. Riley, St. Catharines, Ont.; N. Heslop, Sault Ste. Marie, Ont.; D. H. Parks, Sudbury, Ont.

Western Regional Branch Managers

Front Row - L to R - R. M. Henderson, Regional Credit Manager; W. M. Eager, Western Regional Manager; N. J. Hopper, Calgary, Alta.; W. B. Allen, Prince George, B.C.; Back Row - L to R - L. E. Strandberg, Regina, Sask.; W. S. Kostiuk, Saskatoon, Sask.; J. F. Malone, Winnipeg, Man.; B. A. Flowers, Edmonton, Alta.

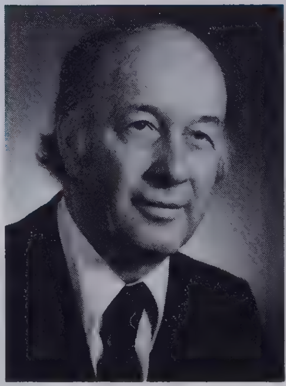
Operations Review
Plumbing and Industrial Group

Canadian Clyde Tube Forgings Limited

Canadian Clyde Tube Forgings, a Toronto based Emco subsidiary, which supplies finished welding fittings and flanges, opened a new branch in Edmonton, bringing the total number of CCTF branches to three. The remaining two are in Montreal and Vancouver.

CCTF serves a wide spectrum of industry: mining, marine, petrochemical, pulp and paper. In fact, it serves every industry where piping is involved.

This division has experienced rapid growth in business and is refurbishing and expanding its capacity in 1974.



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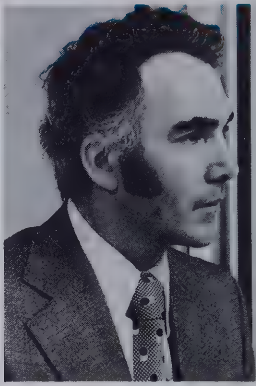

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(1) E. T. McLeod, General Manager, Canadian Clyde Tube Forgings Limited.

(2) W. J. Wynn, Assistant General Manager, Canadian Clyde Tube Forgings Limited.

Outlook for 1974

Within the framework of current demand for plumbing products, shortages for traditional, as well as petroleum based raw materials, will persist during 1974. The shortage of resin, which has contributed to rising prices, will continue to affect the supply of plastic products. The construction industry, like many others, has progressively increased its dependence on plastics. In this area, Emco manufactures a number of products ranging from faucet cover plates, drain, waste and vent fittings, to the recently approved plastic fittings for hot and cold water plumbing lines.

In spite of these constraints, we are determined to further strengthen our leadership in the industry and so far 1974 has been a year of increased opportunities and challenges.

Operations Review

Engineered Products Group

World-wide sales of the group increased by 22% in 1973. The two major factors that influenced the performance of the group were high rates of inflation and the first major energy crisis. As a multinational operation serving the oil industry, we were fully exposed to both.

The effects of the energy crisis varied from country to country but in most cases it created an increased demand for our fluid handling products which are used throughout the world in the distribution of crude and petroleum products. In one or two countries, however, petroleum companies froze investments on distribution systems, preferring to reassess market trends.

While overall profits were higher than in 1972, margins were affected by inflation which had a more adverse effect on our European divisions than it did on the rest of our operations.

Divisional Highlights

Brazil — This new division was established last year in partnership with our former Brazilian distributor. The facility will manufacture our Emco Wheaton line of products for the rapidly developing Brazilian petroleum industry as well as for other South American markets.

U.S.A. — The amalgamation of our two U.S. plants was completed in the course of the year and the plant at Union, New Jersey, was sold. The move to Conneaut was carried through with minimum disruption and the benefits of our regrouped resources are already apparent in the vastly improved results of this division.

The organizational changes and a major product breakthrough in the vapour recovery market made it possible for this division to achieve greater penetration into the U.S. market which continues to expand with further state and city legislation regulating vapour emissions. Additional equipment to serve this market is under development at the Conneaut Plant.

While vapour emission controls are yet to be adopted outside the United States, we do expect some activity in the European countries within the next two or three years.

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(1) L to R - T. F. J. Rose, Marketing Manager, U.K.; T. J. Williams, Manufacturing Manager, U.K.; J. G. Beresford, Vice-President, Engineered Products Group; A. R. Chandler, Engineering Manager, U.K.; W. F. Shutler, Comptroller, Secretary, U.K.

(2) L to R - Dr. K. A. Upton, General Manager, Research and Development Centre; J. R. Keary, Projects Manager, R & D; S. Thurley, Project Engineer, R & D.

(3) R. F. Howard, Group Marketing Director.

(4) L to R - L. W. Swain, Director of Engineering, Engineered Products Group; P. W. Diephuis, Design Engineer; E. W. Hunter, Supervisor Numbering Systems.

Operations Review
Engineered Products Group

Japan — Our Japanese division had another successful year and, while the sales in the domestic markets were noticeably lower, these were fully offset by increased exports to the Far East.

Canada — Our Canadian division again recorded large increases in sales and operating profit and continued to extend its market coverage and product line. In 1973, manufacturing rights were acquired for the well-known Seney extractor valve, a product widely used in service station installations. The growth of this division has now made it necessary to undertake a major plant expansion in Ontario.

U.K. — The high rate of inflation, combined with price controls and material shortages, adversely affected the economy of the United Kingdom. As a result of this, the performance of our U.K. division was not satisfactory.

Germany — The situation in Germany was much the same as that in the U.K. with high inflation and material shortages. Further, the increased value of the Deutschemark impaired the division's strength in export markets. The 1973 results were consequently below expectations. However, the division showed a marked recovery towards the end of the year.

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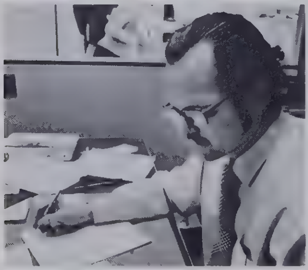

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(1) L to R - P. M. Horrobin, Operations Manager, United States; A. M. Bower, Vice-President, Engineering, U.S.; D. B. Decker, President and General Manager, U.S.

(2) Front Row - L to R - H. Elsdon, Manager, Alberta; R. M. Clark, General Manager, Canada; B. J. Stewart, Manager, Atlantic Region; W. Cyz, Manager, British Columbia; J. A. DiLauro, Manager, Quebec; Back Row - L to R - G. E. Fairles, Manager, Engineering Services; G. T. Greenhalgh, Plant Manager; P. J. Griffiths, Manager, Ontario Region; J. B. Kerr, Gas Equipment Manager.

(3) W. J. Schultz, Senior Vice-President, United States.

(4) L to R - M. Throop, Accounting, United States; J. Rumble, Manager, National Sales, U.S.

(5) I. H. Panton, Accountant, Emco-Wheaton Limited, Toronto.

(6) Australia - L to R - J. Bacon, Fitter/Welder; R. J. Treble, Assistant Manager; V. E. Vinen, Managing Director; N. Smith, Plant Foreman.

(7) A. Housego, Secretary-Treasurer, United States.

(8) F. Pitton, Junior, Advisory Board Member, Germany.

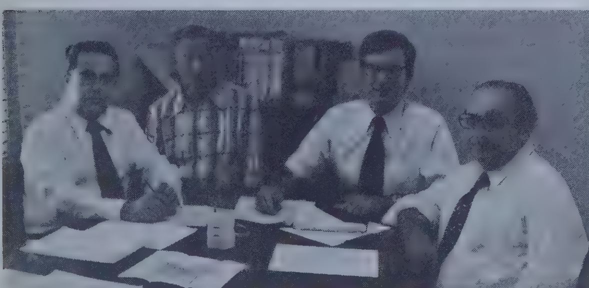
France — The growth of our business in France caused us to move in 1973 into larger premises near Paris where we are now assembling products for the French market. As expected, this move resulted in disruptions and heavy expenses for the French company during the year, which are reflected in their results.

Australia — The results of the Australian division in 1973 were an improvement over the previous year. This was largely as a result of increased exports to the Far East.

Outlook

In the past year, the group's international marketing was strengthened with the appointment of coordinators for Latin America and Africa. Investments were made in new plants and additional capacity. Research and development efforts continued to emphasize our technological leadership through new products, improvements and design modifications to existing products for greater scope and market penetration. There was a general regrouping of resources and expansion of group objectives that came nearer to fruition through the personal achievements of our people around the world.

We have no illusions about the problems that multinational companies must face in 1974. However, we believe that the new era of high cost energy will present many new challenging opportunities. We are confident that our people who demonstrated their capabilities through the difficult restructuring of the group will respond to every challenge and opportunity effectively.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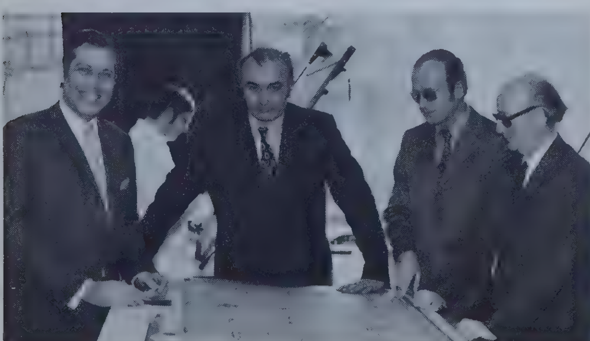
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EMCO
Wheaton


Automatic Service Station Nozzle

(1) L to R - C. H. Coutinho, Director, Brazil; F. Weller, Director, Brazil; P. S. Seybold, Latin American Sales Coordinator; Dr. I. J. Farache, Director, Brazil.

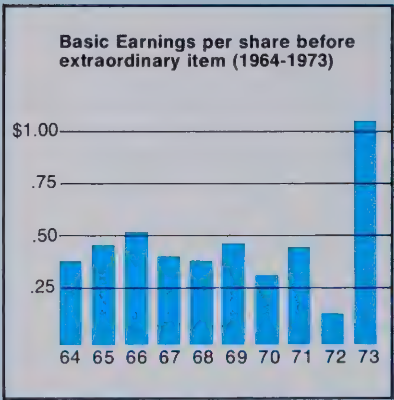
(2) Germany - L to R - W. Buchmueller, Works Manager; R. Kreuzer, General Manager; W. Tiebel, Sales Manager; G. A. Dahle, Financial Manager.

(3) France - L to R - M. Bernede, Works Manager; J. P. Le Moigne, Sales Manager; G. Herd-Smith, General Manager.

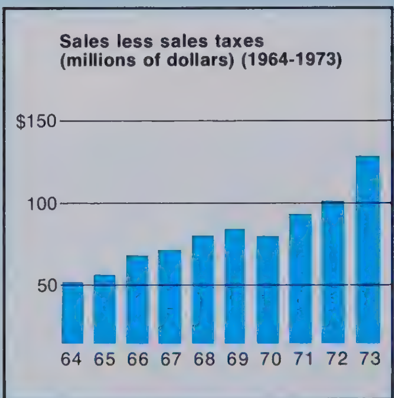
(4) L to R - S. Suzuki, Chief Accountant and G. Teramura, General Manager, Japan.

Emco Limited and Subsidiaries

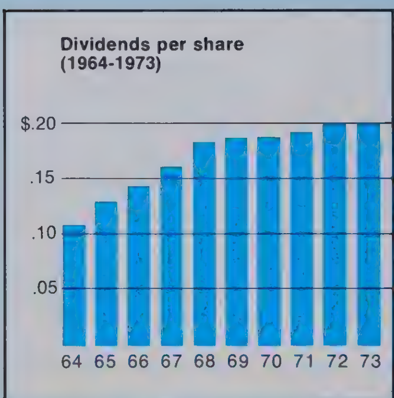
Ten Year Financial Summary



Basic Earnings per share before extraordinary item (1964-1973)



Sales less sales taxes (millions of dollars) (1964-1973)



Dividends per share (1964-1973)

SALES, LESS SALES TAXES

Source and application of funds

Funds provided

Earnings before extraordinary item

Extraordinary item

Depreciation charged

Amortization of debt discount and expense

Deferred income taxes

Cash earnings

Deferred exchange translation gains

Issue of common shares

Minority interests

Increase in long-term debt

Funds used

Capital expenditures — net

Redemption of second preference shares

Dividends — second preference

Dividends — common

Reduction in long-term debt

Deferred debt discount and expense

Increase in investment in partially owned company

Investment in other companies

Excess of purchase price of subsidiary companies acquired during the year over value of underlying net tangible assets

Other — net

Increase (decrease) in working capital

Working capital at December 31

Common share results

Basic earnings:

Before extraordinary item

Including extraordinary item

Fully diluted earnings:

Before extraordinary item

Including extraordinary item

Net worth at December 31

Dividends paid

Return on shareholders' equity at January 1 (based on earnings before extraordinary item)

1973	1972	1971	1970	1969	1968	1967	1966	1965	1964
$130,329	100,542	95,926	83, 810	89,380	83,399	74,325	72,331	60,692	54,280
$ 4,024	547	1,679	1,241	1,782	1,495	1,644	1,993	1,751	1,500
201	104	—	—	1,649	—	84	192	103	161
1,232	1,133	985	930	1,087	1,018	785	734	657	605
16	16	18	6	—	—	—	—	—	—
277	(24)	92	101	(44)	34	—	—	—	—
5,750	1,776	2,774	2,278	4,474	2,547	2,513	2,919	2,511	2,266
203	—	—	—	—	—	—	—	—	—
—	34	41	91	2	33	88	87	29	15
40	14	6	(1)	(9)	(38)	(371)	69	363	16
280	—	6,000	5,000	—	—	3,867	—	6,561	—
6,273	1,824	8,821	7,368	4,467	2,542	6,097	3,075	9,464	2,297
2,653	2,270	1,791	926	1,742	1,797	2,402	1,903	594	1,238
—	—	—	442	239	297	357	298	234	185
—	—	—	7	17	25	35	45	53	59
756	756	723	689	687	686	623	554	488	425
81	157	1,543	3,605	638	258	948	561	184	220
—	—	235	259	—	—	—	—	—	—
39	33	23	9	24	13	7	20	5	6
—	—	—	—	—	—	(54)	(84)	(72)	4
75	214	—	—	—	—	1,115	—	—	—
66	(2)	(51)	(38)	(6)	(88)	142	77	(67)	95
3,670	3,428	4,264	5,899	3,341	2,988	5,575	3,374	1,419	2,232
$ 2,603	(1,604)	4,557	1,469	1,126	(446)	522	(299)	8,045	65
$ 26,181	23,578	25,182	20,625	19,156	18,030	18,476	17,954	18,253	10,208
$ 1.07	.14	.45	.33	.47	.39	.43	.53	.46	.40
1.12	.17	.45	.33	.91	.39	.45	.58	.49	.44
.87	.14	.43	.33	.47	.39	.43	.53	.46	.40
.91	.17	.43	.33	.91	.39	.45	.58	.49	.44
6.10	5.20	5.27	5.02	4.88	4.15	3.88	3.91	3.50	3.17
.20	.20	.18¾	.18⅓	.18⅓	.18	.16¼	.14½	.13	.11¼
% 20.5	2.7	8.9	6.7	11.3	10.0	11.0	15.1	14.6	13.9

Note: Amounts shown above are thousands of dollars with the exception of data under the heading Common share results. Common share results reflect the 3 for 1 subdivision effective July, 1971 and the 2 for 1 subdivision effective May, 1965.

Emco Limited and Subsidiaries

Consolidated Balance Sheet

December 31, 1973
with comparative figures for 1972

Assets

Current assets:	1973	1972
Cash	$ 233,525	138,708
Marketable securities, at cost (quoted value $147,390; 1972, $152,038)	141,833	144,833
Trade accounts receivable, less allowance for doubtful accounts ($946,807; 1972, $819,665)	21,290,974	13,903,247
Inventories at the lower of cost or net realizable value	33,338,784	26,919,328
Prepaid expenses	514,308	527,239
Total current assets	55,519,424	41,633,355
Long-term receivables	180,479	114,657
Investment in partially owned company, at equity (note 1)	198,000	159,000
Property, plant and equipment, at cost less depreciation (note 2)	13,001,211	11,579,622
Unamortized debt discount and expense (note 3)	435,695	452,148
Deferred income taxes	—	103,294
	$69,334,809	54,042,076

See accompanying notes to consolidated financial statements.

On behalf of the Board:

C. N. CHAPMAN, Director

J. W. ADAMS, Director

Liabilities

Current liabilities:	1973	1972
Bank indebtedness	$13,109,922	7,437,562
Accounts payable and accrued expenses	11,695,134	8,625,091
Dividends payable	189,120	189,120
Current portion of long-term debt	56,760	19,523
Income and other taxes payable	4,287,682	1,784,517
Total current liabilities	29,338,618	18,055,813
Deferred:		
Exchange translation gains (note 1)	202,815	—
Income taxes	173,706	—
	376,521	—
Long-term debt (note 3)	16,431,731	16,233,215
Minority interest in subsidiary companies	118,774	77,880
Shareholders' equity:		
Capital stock, common shares (note 4)	574,120	574,120
Retained earnings	22,495,045	19,101,048
Total shareholders' equity	23,069,165	19,675,168
	$69,334,809	54,042,076

Emco Limited and Subsidiaries

Consolidated Statement of Earnings

Year ended December 31, 1973
with comparative figures for 1972

	1973	1972
Sales, less sales taxes:		
Plumbing and Industrial Group	$111,202,549	84,949,425
Engineered Products Group	19,126,494	15,592,844
	$130,329,043	100,542,269
Operating profit after minority shareholders' interest but before the undernoted items	$ 11,523,126	4,961,306
Investment income	10,703	9,027
Equity in earnings of partially owned company (note 1)	39,000	33,000
	11,572,829	5,003,333
Deduct:		
Depreciation	1,231,614	1,133,340
Interest on bank and other short-term advances	941,048	465,221
Interest on long-term debt	1,232,519	1,233,387
Exchange translation gains (note 1)	—	85,417
	3,405,181	2,917,365
Earnings before taxes on income	8,167,648	2,085,968
Taxes on income (note 6):		
Current	3,920,000	1,563,000
Deferred	224,000	(24,000)
	4,144,000	1,539,000
Earnings before extraordinary item	4,023,648	546,968
Extraordinary item — gain on sale of property and plant, less plant relocation expenses	201,415	103,662
Net earnings	$ 4,225,063	650,630
Earnings per common share (note 5):		
Basic:		
Before extraordinary item	$ 1.07	.14
Extraordinary item	.05	.03
Including extraordinary item	$ 1.12	.17
Fully diluted:		
Before extraordinary item	$ .87	.14
Extraordinary item	.04	.03
Including extraordinary item	$ .91	.17

See accompanying notes to consolidated financial statements.

Emco Limited and Subsidiaries

Consolidated Statement of Retained Earnings

Year ended December 31, 1973
with comparative figures for 1972

	1973	1972
Amount at beginning of year	**$19,101,048**	19,372,586
Add net earnings	**4,225,063**	650,630
	23,326,111	20,023,216
Deduct:		
Dividends on common shares	**756,481**	756,481
Excess of purchase price of business acquired during the year over values ascribed to the underlying net tangible assets	**74,585**	165,687
	831,066	922,168
Amount at end of year	**$22,495,045**	19,101,048

See accompanying notes to consolidated financial statements.

Auditors' Report to the Shareholders

We have examined the consolidated balance sheet of Emco Limited and subsidiaries as of December 31, 1973 and the consolidated statements of earnings, retained earnings and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the consolidated financial position of the company and subsidiaries at December 31, 1973 and the consolidated results of operations and source and application of funds for the year then ended, in accordance with generally accepted accounting principles which, except for the change in the method of accounting for unrealized foreign exchange fluctuations as described in (note 1) to these financial statements with which we concur, have been applied on a basis consistent with that of the preceding year.

London, Ontario, February 27, 1974

Peat, Marwick, Mitchell & Co.,
Chartered Accountants

Emco Limited and Subsidiaries

Consolidated Statement of Source and Application of Funds

Year ended December 31, 1973
with comparative figures for 1972

Funds provided:	1973	1972
Net earnings	$ 4,225,063	650,630
Deduct net gain on sale of property and plant	664,760	103,662
	3,560,303	546,968
Add (deduct):		
Depreciation	1,231,614	1,133,340
Amortization of debt discount and expense	16,453	16,454
Deferred income taxes	224,000	(24,000)
Funds provided from operations	5,032,370	1,672,762
Deferred exchange translation gains	202,815	—
Issue of common shares	—	33,630
Assumption of mortgage	279,708	—
Proceeds on disposal of property and plant	1,048,807	426,686
Increase in minority interest in subsidiary companies	40,894	14,239
Total funds provided	6,604,594	2,147,317
Funds used:		
Property, plant and equipment	2,984,250	2,593,712
Reduction in long-term debt: 7% debentures	—	33,630
Other	81,192	123,106
Dividends on common shares	756,481	756,481
Increase (decrease) in long-term receivables	65,822	(3,051)
Increase in investment in partially owned company	39,000	33,000
Excess of purchase price of business acquired during the year over values ascribed to the underlying net tangible assets	74,585	165,687
Income tax benefits relating to business acquisition deferred to future years	—	48,906
Total funds used	4,001,330	3,751,471
Increase (decrease) in working capital	$ 2,603,264	(1,604,154)
Working capital at end of year	$26,180,806	23,577,542

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

December 31, 1973

(1) Principles of consolidation and basis of presentation: The accompanying financial statements consolidate the accounts of all subsidiary companies and all material intercompany balances and transactions have been eliminated.

The accounts of the subsidiary companies located outside Canada have been translated to Canadian dollars as follows: current assets, current liabilities and long-term debt — at rates current at the year end; fixed assets — at rates current on dates of acquisition; accumulated depreciation and related provisions against income — on the basis of dollar value of related assets; and operating income and other expenses — at average rates for the year. In prior years the gains or losses resulting from such translation practices were reflected in the consolidated statement of earnings. Because of the continuing unsettled world currency situation, effective with the 1973 fiscal year, the company has adopted the policy of deferring unrealized exchange translation gains. The 1973 unrealized gain so deferred amounted to $202,815.

The investment in the shares of the partially owned company (50 percent owned) is carried at cost adjusted by the company's share of its earnings since acquisition.

The investment in net assets at December 31, 1973 was geographically distributed approximately as follows:

Canada and United States	$18,406,000
Europe	3,220,000
Japan and Australia	1,371,000
Brazil	72,000

(2) Property, plant and equipment:

	Dec. 31, 1973	Dec. 31, 1972
Buildings and roadways	$11,348,225	10,582,880
Machinery and equipment	11,271,505	10,766,044
	22,619,730	21,348,924
Less accumulated depreciation	11,539,548	10,984,959
	11,080,182	10,363,965
Land	1,921,029	1,215,657
	$13,001,211	11,579,622

Depreciation is generally provided on a straight line basis over the estimated useful lives of the assets. Depreciation rates are as follows: buildings 2.5% and 5%; roadways 10%; machinery and equipment 10% and 20%.

(3) Long-term debt:

	Dec. 31, 1973	Dec. 31, 1972
Emco Limited:		
5¾% sinking fund debentures, due June 15, 1985	$ 4,867,000	4,892,000
9¾% sinking fund debentures, due July 15, 1990	5,000,000	5,000,000
7% convertible sinking fund debentures, due August 1, 1991	5,965,000	5,965,000
8% mortgage due September 1, 1975	279,708	—
United States subsidiary:		
6% mortgage note payable in monthly instalments of principal and interest of $3,585 U.S., due August 1, 1980 (U.S. $398,127)	376,783	395,738
	16,488,491	16,252,738
Less amounts due within one year included with current liabilities	56,760	19,523
	$16,431,731	16,233,215

Long term debt falling due or to be met out of sinking fund payments in the five years ending December 31, 1978, after taking into account the principal amount of debentures repurchased by the company which have been tendered to the trustee in respect of future sinking fund payments, aggregates $56,760 in 1974; $488,683 in 1975; $392,260 in 1976; $415,622 in 1977 and $440,062 in 1978.

The unamortized debt discount and expense relating to the 9¾% sinking fund debentures is being amortized over the term of the debentures using a sum of the digits method. The debt discount and expense relating to the 7% convertible sinking fund debentures (at December 31, 1973, $233,470 after deducting related income tax savings) will be deducted from capital on the conversion of the debentures.

(4) Capital Stock:

(a) Authorized, issued and outstanding:

	Number of shares as at December 31, 1972 and 1973 Authorized	Issued
First preference shares with a par value of $100 each	150,000	—
3% cumulative redeemable second preference shares with a par value of $10 each	61,600	—
Common shares without nominal or par value	12,000,000	3,782,405

(b) Share options:

At December 31, 1973, 179,025 common shares had been reserved for issuance under share option plans for certain key executives. Options on 20,925 common shares were outstanding at prices ranging from $4.79 to $5.066, the last of which expires in 1977.

(c) Share purchase plan:

During 1968, a share purchase plan was approved whereby the employees of the company and its subsidiaries (excluding officers and directors of Emco Limited) may purchase common shares of the company. As at December 31, 1973, there were 128,145 shares available for future subscriptions. There were no transactions during 1973.

(d) Dividend restrictions:

The trust deeds relating to the debentures each contain provisions whereby dividends may not be declared or paid, other than stock dividends, and the company may not effect any reduction to its capital stock which would reduce net current assets and shareholders' equity (as therein defined) below certain levels. At December 31, 1973, the net current assets and shareholders' equity (as so defined) were substantially in excess of minimum levels.

(e) Conversion privilege:

The 7% convertible sinking fund debentures are convertible into common shares without par value in the capital of the company at any time prior to the close of business on August 1, 1974, on the basis of 145 common shares for each $1,000 principal amount of debentures; and thereafter and at any time prior to the close of business on August 1, 1977, on the basis of 127 common shares for each $1,000 principal amount of debentures; and thereafter and at any time prior to the close of business on August 1, 1980, on the basis of 112 common shares for each $1,000 principal amount of debentures.

For debentures converted into common shares prior to the close of business on August 1, 1974, common share purchase warrants will be issued on the basis of 50 warrants for each $1,000 principal amount of debentures so converted entitling the holder of such warrants to purchase one new common share for each warrant held at a price of $7.87 per share, at any time prior to the close of business on August 1, 1977, and thereafter and at any time prior to the close of business on August 1, 1980 at a price of $8.93 per share. To December 31, 1973, 1,750 warrants had been issued and were outstanding at that date.

The company has covenanted to reserve a sufficient number of common shares to be available for conversion of the 7% debentures and for issue upon exercise of the common share purchase warrants.

(5) Earnings per common share:

Earnings per common share are calculated using the weighted monthly average number of common shares outstanding.

In 1973 fully diluted earnings per share are calculated on the assumption that all options, warrants, conversion privileges and related rights to warrants outstanding at the end of the year were exercised at the beginning of the year; and that funds derived therefrom had been invested to produce an annual rate of 7½% before applicable income taxes. The amount of earnings imputed, after income taxes, was $96,162. In 1972 none of the foregoing had a dilutive effect.

(6) Taxes on income:

Certain subsidiaries suffered operating losses during 1972 and 1973 and such losses did not result in any current recovery of income taxes. The potential income tax benefits associated with such operating losses and with the operating losses of certain subsidiaries in prior years are not recognized in the accounts. These operating losses, which aggregate approximately $1,843,000 are available to reduce taxable income which might otherwise be reported in certain future years. The availability of these losses for that purpose expires as to $3,000 in 1974, $120,000 in 1975, $420,000 in 1976, $1,185,000 in 1977 and $115,000 in 1978.

(7) Directors and senior officers remuneration:

The aggregate direct remuneration paid or payable by the company to directors and senior officers was $679,600 for the year ended December 31, 1973 (1972, $361,800).

(8) Pension costs:

The liability for past services under the company's pension plans amounts to approximately $386,000 and this liability is being discharged by cash payments which will fully discharge the liability over a maximum period of twenty-five years. The annual payments, which are charged to operations currently, amount to approximately $64,000. Pension costs for current service are paid and charged against earnings in the year in which they are incurred.

Directors

John W. Adams, F.C.A.
London, Ontario
Executive Vice-President
and Treasurer, Emco Limited

C. Norman Chapman
London, Ontario
President and
Chief Executive Officer,
Emco Limited

W. Harold Evans
Toronto, Ontario
Retired Chairman,
Honeywell Limited

C. H. Ivey
London, Ontario
Retired Chairman,
Emco Limited (Honorary)

Peter J. Ivey
London, Ontario
Vice-President,
Pebojo Holdings Limited

Wayne B. Lyon
Taylor, Michigan
Corporate Vice-President,
Masco Corporation

Frederick W. P. Jones
London, Ontario
Professor, School of Business Administration,
The University of Western Ontario

Ralph S. MacLean
London, Ontario
Vice-President, Plumbing and
Industrial Group, Emco Limited

Richard A. Manoogian
Taylor, Michigan
Chairman of the Board, Emco Limited
President, Masco Corporation

Edwin C. Phillips
Vancouver, British Columbia
President,
Westcoast Transmission Company Limited

John H. Stevens
London, Ontario
Retired Chairman,
Emco Limited (Honorary)

Robert W. Stevens
Toronto, Ontario
Partner, Blake, Cassels & Graydon

David B. Weldon
Toronto, Ontario
President, Midland Doherty Limited

Officers

Richard A. Manoogian
Chairman of the Board

C. Norman Chapman
President, Chief Executive Officer

John W. Adams, F.C.A.
Executive Vice-President and Treasurer

John G. Beresford
Vice-President, Engineered Products Group

Ralph S. MacLean
Vice-President, Plumbing and Industrial Group

Stuart F. Smith
Vice-President, General Manufacturing Division

A. Robert Martin, F.C.A.
Director, Corporate Development and Secretary

W. Wesley DeShane, C.A.
Comptroller and Assistant Secretary

Transfer Agents and Registrars

Royal Trust Company
Toronto, Montreal and Winnipeg
($5\frac{3}{4}$% debentures);
Toronto, Montreal, Winnipeg, Regina, Calgary and Vancouver
(7% convertible debentures and common shares)

The Canada Trust Company
Toronto, Montreal and Winnipeg
($9\frac{3}{4}$% debentures)

Auditors

Peat, Marwick, Mitchell & Co.
London, Canada

Emco Limited

Executive Offices London, Canada

Plumbing and Industrial Group

Divisions

Emco Supply — regional offices, Montreal, Toronto, Calgary; Twenty-eight branches across Canada distributing plumbing, heating and industrial piping supplies to mechanical contractors and industry.

Barrie	Peterborough
Belleville	Prince George
Calgary	Quebec
Edmonton	Regina
Guelph	Saint John
Halifax	Saskatoon
Hull	Sault Ste. Marie
Kitchener	St. Catharines
Lethbridge	Sudbury
London	Terrace
Medicine Hat	Toronto (Weston)
Montreal	Ville de Brossard
Oshawa	Windsor
Ottawa	Winnipeg

General Manufacturing — London Factory, London, Canada — manufacturer of plumbing, heating and industrial piping products for sale to distributors.
— Emco Plastics Limited, Brampton, Ontario — manufacturer of plastic plumbing and piping components.

Canadian Clyde Tube Forgings Limited, Toronto, Canada — distributor of steel welding fittings for industry.
Branches —
Montreal, Vancouver, Edmonton

Engineered Products Group

Manufacturers and distributors of engineered fluid-handling equipment for the oil and petrochemical industries. These specially designed products include engineered loading and unloading equipment for tank truck and bulk terminals, service station equipment, fleet fueling systems and marine loaders for transferring liquid cargoes to and from supertankers.

Divisions

Research and Development Centre — Margate, England

Wheaton Australia Pty. Limited — Sydney, Australia

Emco Wheaton Industria E Comercio S.A., (70% owned) Rio de Janeiro, Brazil

Emco Wheaton U.K. Limited — Margate, England

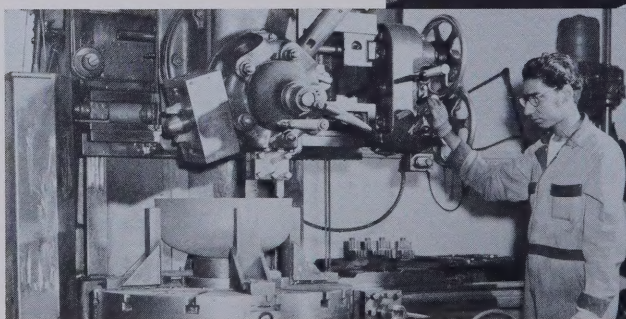
Emco Wheaton S.A. — Paris, France

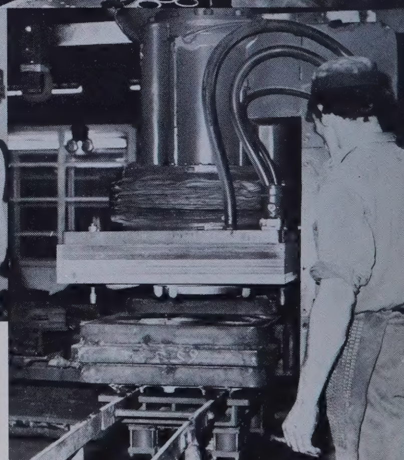
Emco Wheaton GmbH (76% owned) — Kirchhain, West Germany

Emco Wheaton Inc. — Conneaut, Ohio, United States

Emco Wheaton (Japan), Limited — Yokohama, Japan

Emco-Wheaton Limited — Toronto, Canada;
Branches —
Montreal, Calgary, Vancouver (Burnaby)





Emco Limited

Box 5300, London, Canada N6A 4N7
Subsidiaries in Australia, Brazil, Canada, France, Great Britain, Japan, the United States, and West Germany